SCOTTSDALE CITY COUNCIL

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SCOTTSDALE POLICE DEPARTMENT IMPREST ACCOUNTS AND RICO PROGRAM COMPLIANCE AND FINANCIAL MANAGEMENT PRACTICES AUGUST 1991 (Report No. 9105)

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August 12, 1991

To the Most Honorable Herbert R. Drinkwater, Mayor and the Members of the Scottsdale City Council:

This report presents findings related to the Scottsdale Police Department's financial management of the Racketeering Influenced, Corrupt Organizations (RICO) program and imprest checking accounts and compliance with applicable statutory restrictions.

Police management displayed a commitment to safeguard and manage assets adequately by establishing centralized RICO and imprest oversight functions to monitor related activity, by developing written procedures to guide the use of the funds, and by creating standard documents to report expenditures. Furthermore, their request for an independent review of these areas demonstrates a continued commitment to improve control mechanisms. Through identified operational improvements, the City can enhance its ability to comply with statutorily required RICO provisions and can improve the management and safeguarding of assets. (See Insert.)

EXECUTIVE SUMMARY

Since 1988, the City has received approximately \$1.9 million in RICO revenue. The majority of these monies are used to fund Police Department expenses that could not otherwise be funded.

This audit found that the City lost approximately \$15,000 in interest because RICO funds were not immediately obtained by the City. To ensure that the City earns the maximum interest possible, the Police Department needs to arrange for RICO monies to be sent directly to the City as soon as the funds become available.

Practices for tracking RICO cases do not provide for verification that the City receives all monies to which it is entitled. A systematic method of tracking pending RICO cases is needed.

Continued participation in the RICO program is dependent on City compliance with applicable spending restrictions. To better ensure compliance with these restrictions, the Police Department needs to establish a central review point to verify that RICO expenditures are legally allowable.

Internal controls over the RICO program and the imprest checking accounts can be improved to better safeguard assets from misappropriation or errors. To accomplish this, the Police Department needs to segregate key duties, develop additional verification controls and establish written procedures which adequately safeguard assets.

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Personnel in the Police and Financial Services departments as well as the City Attorney's Office were cooperative and responsive throughout this review.

The Police Department's Criminal Investigations Bureau Commander and the Financial Services Department's Accounting Director reviewed this report and submitted written responses which can be found in Appendix E. The Action Plan delineates management's level of concurrence with each recommendation and an implementation timetable where applicable. Policy, procedural and staff related findings are meant as guides and should not be interpreted as absolute limits.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards as they related to financial and compliance audits performed in a local government environment and as required by Article III Scottsdale Revised Code §2-117 et seq. subject to the limitations outlined in Chapter One.

Respectfully submitted,

Approved by

Ramon Ramirez

Michael L. Ashcraft, CIA/CFE

RR/MLA:Gail Crawford, CPS

SCOTTSDALE POLICE DEPARTMENT IMPREST ACCOUNTS AND RICO PROGRAM COMPLIANCE AND FINANCIAL MANAGEMENT PRACTICES ACTION PLAN

RECOMMENDATION	(POTENTIAL FINANCIAL IMPACT SUMMARY) [PRIORITY: SEE APPENDIX A]	The Administrator, in consultation with the State Attorney General, should arrange to have State RICO monies directly transferred to the Department immediately upon court awarded forfeiture. To comply with this arrangement, the Administrator should develop a procedure for providing quarterly reports on the receipt and expenditure of state RICO monies. (Cost: nominal. Benefit: increases interest earned on state RICO funds.) [2]	The Administrator should develop a summary sheet of active RICO forfeiture cases for use in verifying that all appropriate monies are received. Separate summary sheets should be developed for each of the RICO classifications (federal, state, county and city) for easy verification. The summary sheets could serve as a tickler mechanism to obtain status updates from responsible agencies on aging forfeiture cases. (See Appendix C for a summary sheet example.) (Cost: nominal. Benefit: improves operational efficiencies and improves safeguarding of assets.) [2]	The Administrator should develop and maintain documentation of all situations where the Department has an interest in a forfeiture case. (Cost: nominal. Benefit: improves operational efficiencies and improves safeguarding of assets.) {2}	The Police Chief should establish the Administrator as a central review point for all purchase requests drawn on RICO funds. The review should include verification that the requested purchase is legally allowable. However, to properly segregate duties, the Administrator should not generate purchase requests drawn on RICO funds. (Cost: nominal. Benefit: improves ability to achieve statutory compliance.) {2}	The Accounting Manager, in consultation with the Administrator, should establish separate cost centers for each RICO classification (federal, state, county, and city) that track expenditures. (Cost: nominal. Benefit: improves ability to achieve and demonstrate statutory compliance.) [2]	The CIB Commander should develop procedures that adequately safeguard RICO related assets. The procedures should:	 a. segregate responsibility for depositing RICO checks from the responsibility of verifying the checks are properly deposited, 	b. require that the check transmittal recipient perform a monthly review of RICO account balances to verify that the checks were deposited to the appropriate accounts, and	 require the Administrator to comply with AR 205 and deposit RICO funds as received daily with the Cashier in Financial Services. 	(Cost: nominal. Benefit: enhances internal controls and better safeguards assets.) [2]
TATION US	PLANNED	by 9/6/91									
IMPLEMENT	UNDERWAY		×	×	×	×		×	×	×	
MANAGEMENT RESPONSE	DISAGREE										
MAN,	AGREE	×	×	×	×	×		×	×	×	
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RECOMMENDATION	(PUTENTIAL FINANCIAL IMPACT SUMMAKY) [PRIORITY: SEE APPENDIX A]	The Administrator, in consultation with the Accounting Manager, should develop procedures to use a formal cash transmittal document when depositing RICO funds. This should include retaining a copy of the transmittal and verifying that the funds were credited to the appropriate accounts. (See Appendix D for a copy of a cash transmittal form used by City Court personnel.) (Cost: nominal. Benefit: improves ability to achieve statutory compliance.)	The CIB Commander, in consultation with the Custodian, should take steps to develop and update the SED procedures manual to reflect controls that will adequately safeguard assets. The procedural issues addressed should provide for:	a. separation of imprest account check writing from bank reconciliation duties,	b. review of monthly expense vouchers requiring the advance to be reconciled to the sum of expenses reported plus end-of-month monies that are deposited,	c. Custodian signature on expense vouchers as evidence of approval,	d. uniform procedures for completing monthly expense vouchers,	e. a reasonable retention period for imprest receipts and other supporting documents (e.g. 90 days),	f. changing the Buy Fund safe combination on a regular basis (e.g. annually),	g. periodic, unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money (e.g. annually),	h. Custodian verification that Unit supervisors comply with AR 205 requiring daily deposits of cash as received, and	i. a mechanism to regularly update the SED policies and procedures manual.	(Cost: nominal. Benefit: improves safeguarding of assets and operational efficiencies.) [3]	The Custodian, in consultation with the CIB Commander, should combine the two imprest checking accounts. (Cost: none. Benefit: improves operational efficiencies.) [3]		
TATION US	PLANNED															
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MANAGEMENT RESPONSE	DISAGREE															
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CHAPTER ONE RICO AND IMPREST ACCOUNT MANAGEMENT PRACTICES AND THE SCOPE OF THIS AUDIT

At the request of the Scottsdale Police Department (Department) management and as part of the City Auditor's schedule of projects, this audit examined the management controls over the RICO program (Racketeering Influenced, Corrupt Organizations) and the Special Enforcement Division's (SED) imprest accounts. The Department's system of managing asset forfeiture activity under the RICO statutes has not been reviewed by an outside, independent organization since its establishment in 1988. Moreover, the last audit of the SED's imprest accounts occurred in 1986.

Overall, the findings presented are narrow in focus and applicability and address only procedural issues. The audit revealed that while some controls were present, some did not function as needed to accomplish their intended objective and other needed controls did not exist. Department management was very cooperative throughout the audit, openly discussing their concerns over current control procedures. Management was receptive to audit recommendations and demonstrated an eagerness to implement suggested improvements as quickly as possible.

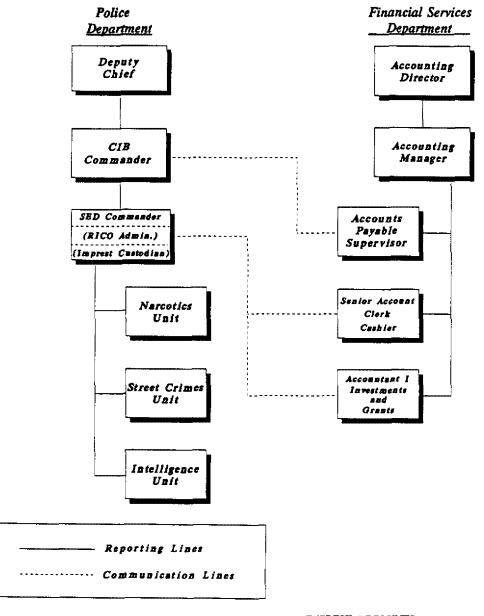
Chapter One provides an overview of the RICO and imprest programs to help foster reader understanding of audit findings. Chapters Two and Three present recommended improvements to RICO and imprest operations, respectively.

ORGANIZATIONAL RESPONSIBILITY

Both the RICO program and the imprest system are administered by the SED Commander, who serves as a central control point. Operationally, the control point for the RICO program is referred to as the "Administrator" while the control point for the imprest system is referred to as the "Custodian." (See Exhibit I.)

At the audit exit conference, the Criminal Investigations Bureau (CIB) Commander indicated that as of July 1, 1991, SED was renamed the Special Investigations Division (SID). Because audit fieldwork was concluded on June 10, 1991, the SED title is used in this report. However, SID can be substituted for SED wherever it appears.

EXHIBIT I RICO AND IMPREST ACCOUNT STRUCTURE (May 1991)



RICO

Administrator:

- Tracks cases.
- Deposits checks with Cashier in Financial Services.
- Receives Revenue Reports from Investment/Grants Accountant.

Cashier:

Posts revenue to accounting records per administrator's instructions.

Investment/Grants Accountant:

- Maintains accounting records on RICO revenue and expenditures.

IMPREST ACCOUNTS

Custodian:

- Writes checks monthly to provide cash advances to unit members and money for Buy Fund.
- Reviews expense voucher's disbursement detail.
- Maintains and verifies checking accounts.
- Request additional monies through CIB Commander to replenish Imprest Accounts.

CIB Commander:

- Reviews replenishment request for approval.
- Forwards replenishment request to Accounts Payable for processing.

SOURCE: Police Department and Financial Services Department Records and Audit Analysis

DEFINING RICO

Federal and state RICO statutes allow law enforcement agencies to seize and retain a criminal offender's property if it was used or gained through illegal activities. (See Exhibit II.) RICO cases can be developed by either a single law enforcement agency or through a joint investigation where several agencies work together. Although it ultimately results from criminal investigations and convictions, a forfeiture of assets is obtained through a separate civil action brought against seized property. Civil RICO actions can be prosecuted in a federal, state, county, or city venue. Venue is determined based on the parties involved. Similarly, asset division is driven by the contributions or interests of law enforcement participants. The actual receipt of funds is handled routinely by City staff.

Venue Determination

Prosecution venues are determined for the most part informally, driven primarily by the law enforcement agencies involved in a case and the prosecution resources available. Location of RICO offenses and of the property seized also influences venue. Multi-state and international cases are pursued at a federal level because of the jurisdictions involved. In the same way, cases that involve several city and/or county agencies are typically prosecuted by the County

Attorney. Furthermore, limitations on city or county prosecution resources may force cases to be sent to the state. Cases developed by more than one law enforcement agency are typically prosecuted at the county or the state level.

Distribution of Proceeds

A percentage of the forfeiture is retained as an administrative fee by the level of government prosecuting the case (e.g. federal). The percentage retained is higher when the judicial forfeiture proceeding is contested by the RICO suspect. The higher percentage reflects the additional prosecution effort required to pursue such a proceeding. (See Insert.)

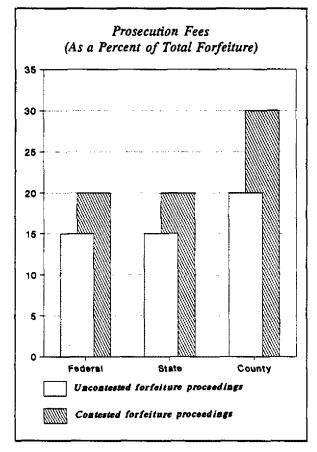


EXHIBIT II RICO SEIZURES

Forfeited cash and property can be distributed to the law enforcement agencies that participated in the seizure. Forfeiture is obtained through judicial proceedings.



Cash seized in February 1990 through a joint investigation between the Scottsdale Police Department and the FBI.



The Scottsdale Police Department seized and obtained forfeiture of these vehicles as the result of seven separate investigations during late 1989 and early 1990.

SOURCE: Scottsdale Police Department Staff

After the prosecution's administrative fee is taken, the remainder of the forfeited assets are distributed to the law enforcement agencies that developed the case. If only one law enforcement agency was involved, the remainder of the forfeiture is given to that agency. When a case is developed as the result of a joint investigation, the forfeited assets are shared by the participating law enforcement agencies. In such instances, percentage "shares" are determined on a case-by-case basis. According to the U.S. Department of Justice's "Guide to Equitable Sharing of Federally Forfeited Property" some of the factors considered in determining the participants shares are:

- The degree of direct participation in the law enforcement effort resulting in the forfeiture, relative to the total value of all property forfeited and the total law enforcement effort;
- Whether and how an agency originated information leading to the seizure;
- Whether the agency provided unique and indispensable assistance; and
- Whether the agency initially identified the asset(s) for seizure.

Consideration is also given to such qualitative factors as risk or danger to agents, difficulty of tasks assumed, and other subjective elements.

Receipt of Monies

RICO monies are generally received at the City in the form of a check from the prosecuting government agency. The Administrator is responsible for delivering the check to the City's Cashier in Financial Services. The Accounting Division maintains the RICO accounts and records activity to the accounts based on input from the Administrator. RICO proceeds must be tracked separately to assure compliance with various spending restrictions imposed by laws and regulations.

DEFINING IMPREST ACCOUNTS

Because of the nature of certain undercover police activities, it is not practical to follow certain standard City purchasing procedures to pay for related undercover expenses. As an alternative, the Department uses an imprest system to make cash available to SED undercover officers so that they can more effectively perform their duties. The imprest system is a method of maintaining reasonable control and simplicity of operation, while adhering to established disbursement rules over routine expenditures.

The typical imprest system works by designating a Custodian who is given control of a relatively small amount of cash from which to make routine disbursements. As disbursements are made, the Custodian obtains documentation on the expenditures from the person who spent the money. If possible, the disbursements are documented by receipts. When the fund runs low, the Custodian requests additional money so that the routine disbursements can continue. The request is supported by receipts and other expenditure documentation. Money is requested and deposited on an as needed basis and the cycle continues.

Currently, SED imprest system consists of two checking accounts 1) the Intelligence Account and 2) Special Enforcement Account. Both accounts are used to provide monthly cash advances to officers who work in undercover capacities. Advances are used by officers to pay expenses incidental their assignments. (See Insert.)

Examples of Incidental Expenses

- batteries for surveillance equipment
- cover charges on vice related surveillance
- beverages to blend in at public places
- food during extended surveillance operations
- purchase of vice related publications

The Intelligence Account provides cash advances to members of the Intelligence Unit while the Special Enforcement Account provides cash advances to members of the Narcotics Unit and the Street Crimes Unit as well as cash for the Narcotics Unit's Buy Fund. Buy Fund money is used to make undercover drug purchases and to obtain information. The Buy Fund money is maintained in a safe by the Narcotics Unit supervisor. (See Exhibit III.)

PURPOSE, SCOPE AND METHODOLOGY

The purpose of this audit was to assess SED operational and financial practices exercised over the RICO program and the imprest system. Originally, a review of the imprest accounts only was scheduled for later in the calendar year; however, audit timing was accelerated in response to poignant requests by the CIB Commander. The Commander expressly wanted to identify risk exposures and opportunities for procedural improvements; consequently, the audit was expanded to include review of RICO management practices.

Audit scope included the review of SED system of managing, tracking, and controlling RICO related activity. It included the review of two imprest checking accounts used by SED to carry out operational duties, and the use of a third checking account to pay other undercover expenses. The undercover account

EXHIBIT III IMPREST CASH AND DOCUMENT FLOW

Imprest Custodian

- Writes checks for cash advances and buy fund.
- Reviews and approves expense vouchers.
- Monitors cash in the buy fund.
- Deposits money in imprest checking account.
- Receives and reconciles bank statements on the imprest checking accounts.

Unit Supervisors

- Distribute cash advances to unit members.
- Keep Buy Fund cash in safe and distribute it for use when needed.
- Review and summarize unit member's expense vouchers.
- Deposit Unit's unused cash advances into Imprest Checking Account at the bank.

Unit Members

- Use cash advances for expenses incidental to undercover assignments.
- Use Buy Fund money for undercover narcotics operations.
- Complete vouchers detailing expenditures at end of the month.
- Return unused cash to supervisor at end of the month.

Flow of cash

Flow of documents

SOURCE: Audit Analysis



Captured as the result of an undercover operation.

was new and all receipts and expenditures were found to be in order and consequently are not specifically referenced in report discussion.

This audit did not include a review of Department procedures and practices used to carry out its enforcement responsibilities. Bureau performance practices were not reviewed.

This audit reviewed state and federal laws as they related to RICO activity, and assessed relevant policies and procedures to determine City compliance with statutory restrictions. Interviews were conducted with Department and Accounting Division personnel in the Financial Services Department involved with either administering, managing, monitoring, tracking, posting, or reporting RICO or imprest account activity. City Attorney personnel were interviewed to obtain interpretations of RICO statutes and restrictions. Information was obtained from officials at the U.S. Attorney's Office (District of Arizona), the Arizona State Attorney General's Office and the Maricopa County Attorney's Office.

In addition, City Administrative Regulation (AR) 205, covering the deposit of cash receipts, was reviewed and compared to Department practices. Relevant documents were reviewed as well as policies, procedures, and practices used in managing and administering the RICO program and imprest system. Tests were performed on samples of transactions to verify their accuracy and propriety. (Sampling strategies are discussed in Appendix B.)

The audit work was performed in accordance with Generally Accepted Government Auditing Standards as they related to financial and compliance audits performed in a local government environment and as required by Article III Scottsdale Revised Code §2-117 et seq. and included such tests of data and records considered necessary in the circumstances.

Fieldwork was performed from April 5, 1991, through June 10, 1991. Throughout this time, audit resources were spread among three projects.

CHAPTER TWO RICO PROGRAM INTERNAL CONTROLS CAN BE IMPROVED

Management Control Mechanisms

- 1. Key duties and responsibilities are segregated,
- 2. transactions are monitored and promptly recorded and classified,
- 3. asset access is limited and rational,
- 4. qualified staff are recruited and retained,
- 5. records and assets are periodically checked and verified, and
- 6. management acts to address identified discrepancies.

Internal controls are the procedures management establishes to help ensure that desired objectives are accomplished. Furthermore, adequate an system of controls will help deter any intentional or unintentional misappropriation resources. These systems may found be in many forms; however, they can be organized six into

categories. (See Insert.)

Currently, adequate internal controls for the RICO program either do not exist or they do not function properly so that desired objectives are achieved. Specifically, the City loses interest on RICO monies that are not immediately obtained by the Department, management oversight of transactions and documents could be improved and made more effective, key duties need to be segregated, and physical assets require attention to help ensure

proper safeguarding.

BACKGROUND: RICO SPENDING RESTRICTIONS

Between July 1, 1990 and June 15, 1991 the City received over \$1.1 million from RICO seizures. Most of these monies came from federal sources but amounts vary widely from year to year. (See Insert.)

Scottsdale RICO Revenue									
Fiscal Year Ended									
<u>Source</u>	6/30/89	6/30/90	6/15/91*						
Federal	\$501,827.40	\$ 92,858.53	\$ 908,463.84						
State	-0-	-0-	147,375.49						
County	19,346.85	1,677.05	-0-						
City	<u>29,103.00</u>	<u>133,051.94</u>	<u>82,356.42</u>						
	\$550,277.25	<u>\$227,587.52</u>	<u>\$1,138,195.75</u>						
* Most current information.									

RICO money must be tracked by source (i.e. the original venue in which the case was prosecuted) because governing laws and rules place different restrictions on how funds may be spent:

- U.S. Department Of Justice Guidelines state that federal RICO monies must be used to "increase and not supplant law enforcement resources" of the recipient law enforcement agency.
- State RICO monies must be used "for <u>investigation and</u> <u>prosecution of any offense</u>, within the jurisdiction of the attorney general, included in the definition of racketeering" (ARS §13-2314.01)
- County RICO monies must be used for "the investigation and prosecution of any offense included in the definition of racketeering" (ARS §13-2314.03)
- City RICO monies may be used differently based on their form: Forfeited CASH is restricted to "the investigation and prosecution of any offense included in the definition of racketeering." Forfeited PROPERTY OR PROCEEDS FROM THE SALE OF FORFEITED PROPERTY is available for "official federal, state, or political subdivision use" (ARS §13-4315). [emphasis added]

Federal guidelines require local agencies to implement "standard accounting practices and internal controls" to track federal RICO monies. Furthermore, the Department's agreement with the state requires the City to maintain "a complete and accurate set of books and records including original source documentation which details the receipt and expenditure" of state RICO monies.

Noncompliance with statutory RICO spending restrictions can result in excluding the City from sharing in future RICO forfeitures, or in repayment of forfeitures previously received. Under an agreement with the State Attorney General, the City's use of State RICO funds is subject to outside audit. The City's use of federal and county RICO funds may also be subject to audit. If an audit were to disclose noncompliance with statutory spending restrictions, the City could be required to repay any "misused" RICO monies.

The current procedures for managing RICO activity were established in June 1988, when the SED Commander was designated as the Administrator. He was responsible for general oversight of RICO activity and for assuring monies received were credited to the appropriate account, i.e. federal, state, county, or city.

DIRECT CONTROL NEEDED OVER STATE RICO FUNDS

Under current arrangements, the State Attorney General requires the Department to formally request state RICO monies before delivery is allowed. In the last few years, the City lost interest because state monies were not immediately requested. If special arrangements are made, the Attorney General will automatically transfer all monies owed to a jurisdiction. Until requested or until such arrangements are formalized, all monies are deposited and held in the State's Anti-racketeering Revolving Fund.

The City's portion of the Revolving Fund is recorded by the Attorney General, but Police management does not receive any type of notification related to its share. Instead, Department staff make informal phone inquiries to the Attorney General to determine the City's fund balance. Any errors or omission associated with this personalized tracking system can impact the Department's ability to recoup legitimate claims in a timely fashion.

State RICO monies can be obtained from the Revolving Fund by submitting a request detailing intended use. Upon Attorney General approval, a check is sent to the Department's Administrator. While in the Revolving Fund, the Department's share of RICO monies do not receive interest.

In September 1988, the Department began participating in the Revolving Fund. In April 1990, the Department's share reached \$155,307 for the first time and stayed there until part of it was withdrawn in August. The City lost approximately \$15,000 in interest because these monies were left in the Fund for nearly 2 years. In October 1990, the Department requested and received all monies due from the Fund; however, the holding arrangement through the Attorney General remains in effect on any new monies coming into the process.

According to an Assistant Attorney General, Scottsdale can choose to have its RICO monies automatically transferred once a court-awarded forfeiture is granted. Such an arrangement would only require that a quarterly report be sent to the Attorney General that details the receipt and expenditure of the monies. Under such an arrangement, the City would gain interest on all relevant funds.

The Administrator indicated that he would attempt to establish an automatic transfer system with the Attorney General the next time a RICO case was identified.

TRACKING OF RICO FORFEITURE ACTIONS NOT DEVELOPED

Currently, the Department's tracking mechanism is not designed to ensure that all pending forfeitures are diligently monitored. Although, in most cases, records are maintained that document the Department's interest in a pending forfeiture; there are some instances where no such records are kept. Moreover, even when the records are available, they are not always used to routinely or systematically track forfeiture status.

Up to four venues, including the City, can prosecute RICO cases and, as the result of joint investigations, a variety of law enforcement agencies may be entitled to share in a forfeiture. In many instances, years pass before forfeitures are completed. Given these circumstances, the risk of error or oversight in the distribution of forfeited property can be great. This risk is especially significant in those situations where the Department is entitled to a share of a forfeiture, but has no records that document the pending forfeiture. This occurred in 1990, during a joint investigation, when another law enforcement agency was responsible for filing the "sharing request" but failed to send a copy of the filing to the Department. In such instances, no other documentation is available to help the Administrator track potential forfeitures.

If an entity does not receive its share of RICO monies, it is responsible for identifying the error and seeking corrective action. Without a system that systematically tracks RICO forfeitures, such errors and oversights could go undetected and the Department and the City could lose money.

MONITORING AND TRACKING RICO EXPENDITURES COULD BE IMPROVED

In addition to improving its tracking of forfeiture cases, the Department could improve tracking of funds already received. The Department's agreement with the Attorney General requires a separate accounting of receipts and expenditures of state RICO monies. Furthermore, separate accounts which track federal, county, and city RICO expenditures would facilitate the City's ability to demonstrate compliance with applicable spending restrictions.

Although procedures appear adequate to ensure that budgets which use RICO funds comply with applicable restrictions, no one reviews actual purchase requisitions to verify compliance. Without some type of informed review, actual RICO expenditures are potentially exposed to violating compliance rules and suffering associated penalties. To date, no compliance errors were found.

Although each RICO source (e.g. federal) has its own revenue account, all expenditures are charged to one cost center. All expenditures are aggregated and must be manually tracked to avoid compliance violations.

Even though the Administrator is responsible for notifying Financial Services of the RICO revenue classification from which an expenditure has been

made, it is not being done. As a result, Financial Services does not have the information necessary to accurately record RICO expenditures against the appropriate RICO revenue source. Because of this situation, Financial Services classifies RICO expenditures on a systematic basis that does not necessarily charge the appropriate RICO revenue account with related disbursements. Properly classifying RICO expenditures is necessary to demonstrate compliance with the different spending restrictions that apply to the four types of RICO revenues. Consequently, while RICO monies may be spent in compliance with applicable restrictions, improperly classifying the expenditures may give the false appearance that a different set of restrictions should be applied to the expenditures. If the wrong restrictions are used to assess the propriety of a RICO expenditure, it may lead to the erroneous conclusion that the City is not in compliance with spending restrictions.

CASH PROCESSING CONTROLS ARE WEAK

As a standard control, duties for depositing RICO checks and for verifying the deposits are properly made need to be segregated. This separation of duties helps protect the individual from any appearance issues in cases where errors occur and it helps protect the Department in cases where misdeeds prevail.

The Department's share of a forfeiture usually comes as a check which is routed to the Administrator who is responsible for depositing the checks with the Cashier in the Financial Services Department, and for verifying that the deposits are properly made. This arrangement eliminates the opportunity for an independent verification that all RICO checks received have been appropriately deposited.

The Administrator indicated that his practice is to hold checks until he has "a few" before sending them to the Cashier. Some checks may be held for up to a month. Approximately \$160 in interest was lost because three checks were held for nearly one month. In addition to losing interest, such practices increase the risk of misplacing checks and do not comply with AR 205 which requires that all funds be deposited, intact, as received each day with the Cashier in Financial Services.

Finally, the method used to communicate to the Cashier whether deposited RICO funds should be classified as federal, state, county, or city can be improved. The Administrator is responsible for identifying the RICO account to which the funds should be credited. Since it is important that the funds be accounted for by their source (e.g. federal) to avoid compliance violations, the

Administrator uses an informal method of attaching personal notes to checks that identify the RICO account to be credited. Besides being subject to loss, once given to the Cashier, the Administrator has no copy of the note to later verify that the RICO accounts were correctly credited.

RECOMMENDATION(S)

- 1. The Administrator, in consultation with the State Attorney General, should arrange to have State RICO monies directly transferred to the Department immediately upon court awarded forfeiture. To comply with this arrangement, the Administrator should develop a procedure for providing quarterly reports on the receipt and expenditure of state RICO monies.
- 2. The Administrator should develop a summary sheet of active RICO forfeiture cases for use in verifying that all appropriate monies are received. Separate summary sheets should be developed for each of the RICO classifications (federal, state, county and city) for easy verification. The summary sheets could serve as a tickler mechanism to obtain status updates from responsible agencies on aging forfeiture cases. (See Appendix C for a summary sheet example.)
- 3. The Administrator should develop and maintain documentation of all situations where the Department has an interest in a forfeiture case.
- 4. The Police Chief should establish the Administrator as a central review point for all purchase requests drawn on RICO funds. The review should include verification that the requested purchase is legally allowable. However, to properly segregate duties, the Administrator should not generate purchase requests drawn on RICO funds.
- 5. The Accounting Manager, in consultation with the Administrator, should establish separate cost centers for each RICO classification (federal, state, county, and city) that track expenditures.
- 6. The CIB Commander should develop procedures that adequately safeguard RICO related assets. The procedures should:
 - a. segregate responsibility for depositing RICO checks from the responsibility of verifying the checks are properly deposited,
 - b. require that the check transmittal recipient perform a monthly review of RICO account balances to verify that the checks were deposited to the appropriate accounts, and
 - c. require the Administrator to comply with AR 205 and deposit RICO funds as received daily with the Cashier in Financial Services.

7. The Administrator, in consultation with the Accounting Manager, should develop procedures to use a formal cash transmittal document when depositing RICO funds. This should include retaining a copy of the transmittal and verifying that the funds were credited to the appropriate accounts. (See Appendix D for a copy of a cash transmittal form used by City Court personnel.)

ABBREVIATED RESPONSE(S)

(For a complete discussion on management actions taken or planned, and additional comments, see Appendix E, page 31.)

- Police management agrees and will contact the State Attorney General's Office "within 30 days to request and implement this process."
- 2. Police management agrees and has already requested information on computer software that may assist in complying with the recommendation. "A system will be implemented after all information is received and evaluated."
- 3. Police management agrees and states that "improved documentation in this area will be of benefit to the department."
- 4. Police management concurs and states that "the Administrator will review, approve and initial all purchase orders drawn on RICO funds."
- 5. The Financial Services General Manager agrees and as of August 2, 1991, already established the recommended separate cost centers.
- 6a. Police management agrees and states that "the Administrator will maintain responsibility for depositing RICO checks. The CIB Commander shall be responsible for verifying that all checks are properly deposited."
- 6b. Police management concurs and states that "the CIB Commander shall be responsible for conducting this monthly review."
- 6c. Police management agrees and states "all checks received are delivered to the City Cashier on the day they are received when at all possible."
 - 7. Police management concurs and states "a formal cash transmittal form, supplied by Accounting, is presently being utilized for all RICO deposits.

The Financial Services General Manager agrees and "will make a recommendation to the RICO administrator for a change to the existing Cash Transmittal to allow RICO funds to be deposited."

CHAPTER THREE INTERNAL CONTROLS OVER THE SPECIAL ENFORCEMENT DIVISION'S IMPREST ACCOUNTS CAN BE IMPROVED

Although the Department has established controls over the imprest checking accounts, some of the controls have not been fully developed, while others are not being properly implemented. In addition, management oversight of disbursement activity could be expanded, critical management control points need to be segregated, and assets need to be physically safeguarded. Additional improvements are needed in written procedures, one of which is outdated and conflict with actual practices while others need to be standardized between work units.

Even before the completion of this review, Department management recognized some of these problems and began taking corrective action. The Department was involved in a process of updating the SED procedures manual. That update should resolve several of the findings noted in this chapter.

BACKGROUND: IMPREST CASH DISTRIBUTION

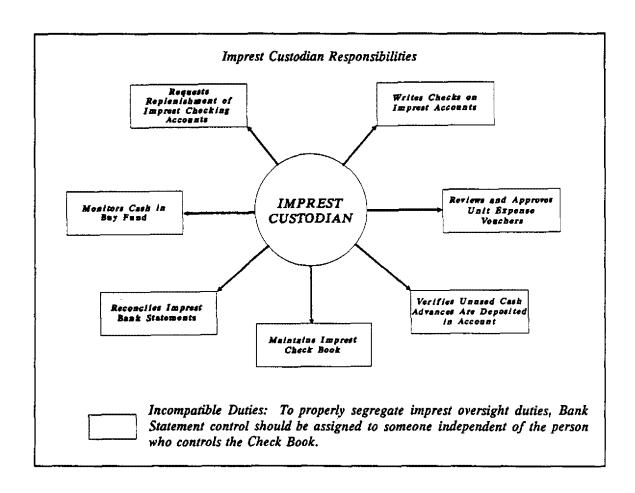
At the beginning of each month the Custodian writes checks against either the Intelligence Account or the Special Enforcement Account to cover cash advances given to members of the Narcotics, Street Crimes, and Intelligence Units. Checks are given to Unit supervisors who cash them and distribute the funds to field personnel. Throughout the month, Unit members use these monies to pay expenses incidental to assignments, obtaining receipts whenever practical. Each Unit member is required to detail expenditures on an expense voucher. At month-end, they give their expense voucher, and any remaining cash to the Unit supervisor who reviews and signs the vouchers once verified. The supervisor is responsible for depositing returned cash and generating a summary. The summary, all supporting vouchers and deposit slips are submitted to the Custodian. Upon approval, the Custodian writes a check for the next month's advance and the cycle starts again.

The Special Enforcement Account is also used to provide money for the Narcotics Unit's Buy Fund. These monies are not distributed to each Unit member, but are maintained in a safe by the supervisor who is responsible for documenting

use. Unit members draw money from the Buy Fund through this supervisor. The amount of Buy Fund cash maintained is based on the number and size of cases being pursued. Each month the Narcotics supervisor provides detail on Buy Fund activity to the Custodian. When cash runs low or additional money is needed, the supervisor requests an adjustment from the Custodian. If the request is justified, the Custodian cuts a check to the supervisor who must cash it and place the proceeds in the safe until used.

KEY DUTIES NOT SEGREGATED - CORRECTIVE ACTION PLANNED

Currently, the Custodian exercises substantially total control over SED imprest system. (See Insert.) Since this control is so pervasive, the Custodian is exposed to appearance issues if any discrepancies or errors arise. Although this position is needed to verify the use of imprest monies, key duties need to be separated between at least two functions to protect the individual from appearance issues and to safeguard the City in case misuse occurs.



In organizational units where staff numbers are limited, adequate segregation can occur if key reconciliation duties are assigned to individuals

who are independent of the chain-of-command that is directly responsible for the asset. In this case, by moving responsibility over reconciling imprest bank statements to someone who is placed, organizationally, lateral to the Custodian, internal controls would be improved substantially. The CIB Commander indicated that administrative staff in another division would be tapped for this assignment.

WEAKNESS NOTED IN IMPREST ACCOUNT MANAGEMENT

To assure Department management that imprest monies are always used properly, monthly expense vouchers need to be reviewed routinely and detailed sufficiently. Under current procedures, vouchers that detail monthly expenses are required from each officer who receives that cash and from the Buy Fund supervisor. These vouchers help establish accountability over cash disbursements.

Submitting officers are required to sign their vouchers and turn them in to the appropriate supervisor who prepares a signed summary and submits all documentation to the Custodian. A second signature line acts as evidence that the Custodian reviewed the vouchers. This review then becomes the official basis for issuing the next advance. However, because advances are not always reconciled to vouchers, the current review process does not enable management to verify the accuracy or completeness of reported expenditures. Furthermore, the review would be easier and more efficient if all expense vouchers were completed in a uniform manner so that the Custodian would not have to master (reconcile) different report formats.

Expense Vouchers Not Fully Reviewed

To assess the adequacy of accounting records, expense vouchers for all three SED Units and the Buy Fund were reviewed for accuracy, completeness and authorizations. Between July 1990 and March 1991, audit analysis found two consecutive months where \$150 (\$300 total) was "unaccounted" for. These monies were not reported as expenditures or redeposited as unexpended cash as required by established Department practices. These omissions were caused by an officer who commingled advanced money with personal money. In effect, the \$300 was held by an officer for four months even though it should have been redeposited.

As soon as this discrepancy was reported to Bureau managers, all monies were deposited into the appropriate imprest account. No "wrong doing" was evidenced; however, it lead to a concern that the Custodian did not systematically, thoroughly review all vouchers. A review of the vouchers showed that the Custodian did not sign (mark as reviewed) vouchers under his charge. According

to the Custodian, time constraints and other job duties did not always allow him to perform the needed detailed review. Instead, he relied on reconciling the imprest checking accounts as his assurance that all monies were accounted for properly.

While relatively minor in nature, this oversight could have been embarrassing and it could have been avoided. To adequately evaluate the appropriateness of imprest expenditures, vouchers need to be reviewed and signed once approved. Such an analysis would have immediately detected this commingling practice. Specifically, a reconciliation of all cash advances to the sum of the voucher expenses claimed plus any unspent cash redeposited into the imprest account would allow the Custodian to safeguard monies that can be subject to loss or misplacement. Currently, SED procedures do not contain these requirements but management is revising the process and including these changes in their manual.

Efficiency In Voucher Preparation Could Be Improved

One barrier to efficient monthly review of these vouchers involves a lack of standardized procedures. Although the imprest expense vouchers from the Narcotics and Street Crimes Units are completed on basically the same type of form and submitted to the Custodian, each is managed differently. (See Insert.)

Unit A	Although both Unit supervisors receive	Unit B BEEINHING BALANCE
Gat GT/ Other Salasse	monies at the start of the month, "A" starts his summary voucher with the total advance. "B" starts with zero to show that last month's money had been returned.	ORF, item, Expense CIF, Other, Salance
		+00.3
	"A" reduces his advance to zero to show all monies have been distributed. "B" shows a cash balance after distributing all money. "B" does not show his portion of the advance as a distribution.	300 0
1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	"A" totals his month end collection of unused cash advances to show the amount to be redeposited. Although "B" does the same, he zeros out the amount to show that the money has been redeposited already.	95 or 3-5 or 125 or 12

These differences exist because procedures only require that the expense vouchers be submitted but do not address how they should be prepared. This inconsistency slows (hampers) the Custodian's review efforts and weakens management control.

Document Retention Rules Require Revision

Management control over assets is weakened because imprest receipts are not retained for more than one month. Arguably, undercover officers cannot reasonably be expected to always obtain receipts for expenditures; however, some purchases can be receipted without compromising an investigation. In any case, this documentation is destroyed after about 30 days. The Custodian stated that this retention policy simply does not provide him enough time to adequately review associated material.

In early June, the Custodian's physical relationship to the Units changed. Department managers believe that since he will now be "on-site" with the Units, concerns related to document retention may be mitigated. Prior to June, the Custodian was stationed several miles from the Units. Consequently, the transportation of documents was less than ideal. Unit supervisors kept the receipts but discarded that information as soon as their personal needs were met. The Custodian did not have an opportunity to review this information at a later date when time permitted.

To serve as an effective control mechanism, evidence of the disbursements needs to be retained long enough for the Custodian to verify accuracy and propriety. The availability of such documentation would allow the Custodian to better monitor imprest activity. Regardless of where the Custodian is physically located, the inclusion of supporting receipts with related vouchers will add to his review ability and improve control.

Cash Could Be Better Safeguarded

In addition to strengthening the expense vouchers process, physical controls over the actual management of cash can be improved. The amount of cash kept on hand for making undercover narcotic buys and paying criminal informants averages around \$2,000. It is held in a safe to which only the Narcotics Unit and Street Crimes Unit supervisors and the Custodian are supposed to have the combination. However, no one knows how many people may actually have the combination since the safe has been in use for about 10 years and the combination has never been changed. Regularly changing safe combinations is a standard technique used to control access and thus safeguard assets.

Between June 1988 and June 1991, the Custodian counted Buy Fund cash only once. Such counts are done to verify that the cash in the safe matches Buy Fund records. However, to be effective, cash counts need to occur frequently. Such a procedure would have helped prevent the noted commingling practices that allowed advance monies to be held for an extended time.

WRITTEN PROCEDURES CONFLICT - UPDATES IN PROCESS

Authorizations required to obtain Buy Funds vary when established procedures are compared to recent Department directives. SED procedure manual establishes authorization levels needed to approve certain types of payments. Currently,

these authorization levels conflict with a June 1987 Chief Police memo that increases the amount that can be approved at each level. (See Insert.) SED honors the Chief's directive; however, conflict this could inadvertently cause process glitches if communications ever became muddled. To remedy this, management is updating the SED manual.

Guidance Approvals)					
Approval Authority					
Per Police Chief <u>Memo</u>	Per Procedure <u>Manual</u>				
\$150	\$ 50				
\$300	\$100				
\$300	\$100				
	Approvals) Approval Per Police Chief Memo \$150 \$300				

CASH HANDLING COULD BE IMPROVED

To help safeguard cash, AR 205 requires that all monies be deposited promptly. SED procedures and practices do not adhere to this directive closely.

After completing monthly vouchers, Unit members forward all unspent cash to their supervisor who deposits it into the appropriate account. Audit testing of expense vouchers and related deposits indicated that one Unit supervisor delayed deposits 44 percent of the time ranging from one to three weeks. Holding onto cash in this manner unnecessarily exposes these assets to risk of loss or misappropriation.

MANAGEMENT TAKES STEPS TO ELIMINATE UNNECESSARY ACCOUNT

Even though the SED Commander serves as Custodian for both imprest accounts, they were separated to establish independent trails for cash distributed to the Units. Both accounts are funded from the same budget item and no material differences were identified in the procedures used to administer the accounts except in their names. Furthermore, the Custodian could not offer any reasons why two separate accounts should be maintained.

Since no conditions exist that necessitate the continued maintenance of separate imprest checking accounts and their separation can only serve to increase the amount of time it takes to track and reconcile monies as well as the likelihood of clerical errors and omissions, Department management indicated that these two accounts would be combined if audit analysis concurred.

RECOMMENDATION(S)

- 8. The CIB Commander, in consultation with the Custodian, should take steps to develop and update the SED procedures manual to reflect controls that will adequately safeguard assets. The procedural issues addressed should provide for:
 - a. separation of imprest account check writing from bank reconciliation duties,
 - b. review of monthly expense vouchers requiring the advance to be reconciled to the sum of expenses reported plus end-ofmonth monies that are deposited,
 - Custodian signature on expense vouchers as evidence of approval,
 - d. uniform procedures for completing monthly expense vouchers,
 - e. a reasonable retention period for imprest receipts and other supporting documents (e.g. 90 days),
 - f. changing the Buy Fund safe combination on a regular basis (e.g. annually),
 - g. periodic, unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money (e.g. annually),
 - h. Custodian verification that Unit supervisors comply with AR 205 requiring daily deposits of cash as received, and
 - i. a mechanism to regularly update the SED policies and procedures manual.

9. The Custodian, in consultation with the CIB Commander, should combine the two imprest checking accounts.

ABBREVIATED RESPONSE(S)

(For a complete discussion on management actions taken or planned, and additional comments, see Appendix E, page 31.)

- 8a. Police management agrees and states that "procedures are being prepared that require the Custodian to be responsible for account check writing while the CIB Bureau Commander will be charged with reviewing and reconciling the account monthly."
- 8b. Police management agrees and states that "this function has been implemented and will be included in the procedures manual."
- 8c. Police management concurs, stating "the Custodian is reviewing and approving all expense vouchers. This procedure will be included in the procedures manual currently being revised."
- 8d. Police management agrees and states "all monthly expense vouchers are now completed uniformly. This procedure will be incorporated in the procedures manual currently being revised."
- 8e. Police management concurs and will maintain all receipts and supporting documentation "for a period of 90 days. This requirement will be included in the revised manual of procedure."
- 8f. Police management agrees and states "the safe combination will be changed annually or when supervisory personnel changes occur within the unit. This requirement will be included in the revised manual of procedure."
- 8g. Police management agrees and will include, in the revised procedures manual, "a requirement that quarterly cash counts be conducted."
- 8h. Police management concurs and states "the Custodian is requiring that all supervisors comply with this requirement when possible. This requirement will be included in the revised procedures manual."
- 8i. Police management agrees and will update the manual of procedures quarterly to reflect new or revised policies and procedures as they occur.
 - 9. Police management agrees that there is no longer a reason to have two separate accounts and further states that "the accounts are scheduled to be combined."

APPENDICES

APPENDIX A DEFINITIONS OF PRIORITY CLASSIFICATIONS FOR AUDIT RECOMMENDATIONS

PRIORITY CLASSIFICATION	DESCRIPTION
1	Fraudulent practices or other serious violations are being or have been committed resulting in significant financial or equivalent non-financial losses to the City.
2	The potential for incurring significant financial or equivalent non financial losses exists.
3	Administrative, operational, or programmatic process can be improved

APPENDIX B
SAMPLING STRATEGIES

SAMPLING STRATEGIES

RICO SAMPLES

The following samples were selected for review and testing of RICO related items:

	Exception N	oted
411 P700 humanaki na malakai ta Aba Chata	<u>Yes</u>	<u>No</u>
All RICO transactions related to the State Attorney General's anti-racketeering revolving fund, since inception of Scottsdale Police Department participation, were reviewed. Analysis determined that the City lost approximately \$15,000 in interest because RICO monies were not immediately requested from the fund.	X	
- A judgmental sample of four RICO expenditures was selected to trace back to source documentation and verify that the disbursements were within RICO restrictions. The sample represented 75 percent of RICO dollar expenditures recorded between July 1, 1990 and June 4, 1991.		х
One day was judgmentally selected to examine RICO check deposits. Analysis determined that RICO checks were being held for extended periods before being deposited. For three checks reviewed, approximately \$160 in interest was lost because the checks were held for nearly one month.	X	

IMPREST ACCOUNT SAMPLES

For the nine month period of July 1, 1990 to March 30, 1991, four sample strategies were employed:

- Selected and traced all 21 disbursements from the Special Enforcement checking account to their use as evidenced by Police Department records.
- ~ Selected and reviewed all Street Crimes Unit monthly expense vouchers to verify that advance money was properly accounted for. Redeposits of unused advance funds were verified through examination of deposit slips.

Х

Х

	Exceptio	n Noted
	<u>Yes</u>	<u>No</u>
~ Selected and reviewed all Narcotics Unit monthly expense vouchers to verify that advance money was properly accounted for. Redeposit of unused advance funds was verified through examination of deposit slips. For two consecutive months we found that \$150 (\$300 total) was not accounted for properly. Police Department follow-up resulted in resolution of the irregularities. The analysis determined that the Unit supervisor delayed redeposit of unused advance monies up to three weeks. The Unit supervisor was found to delay deposits 44 percent of the time.	X	
 A judgmental sample of Intelligence Unit monthly vouchers, which detailed the use of advance funds, was selected for review. 		X
As a result of exceptions noted in the review of Narcotics Unit monthly expense vouchers between July 1, 1990 and March 30, 1991, a cursory review of the Unit's vouchers between July 1, 1989 and June 30, 1990 was performed.		x
For the ten month period of July 1, 1990 to April 30, strategies were employed to analyze Buy Fund activity:	1991, tw	o sampling
~ Selected all drug buy transactions that were \$200 or greater. Nine such transactions were identified and traced to: 1) the receipt provided by the officer using the funds, 2) records evidencing the purchased drugs were deposited with the property room and 3) the physical asset maintained by the property room.		X
Selected all criminal informant payments that were \$100 or greater. Seven such transactions were identified and traced to documentation to verify compliance with applicable procedures.		х
UNDERCOVER ACCOUNT		
Because this was a relatively new account, all six disbursements as of April 30, 1991 were reviewed. The disbursements were traced to supporting invoices to verify propriety of amounts.		X

APPENDIX C EXAMPLE OF RICO PENDING FORFEITURE SUMMARY SHEET

	H H H H H H						1ly 65%				
COMMENTS	PT 11 11 11 11 11 11 11 11 11 11 11 11 11						FBI determined SPD share only 65%				
NEXT UPDATE	***************************************	æ Æ	N/A	A/N	B/22/90	8/22/90	9/3/90 F	11/3/90	11/3/90	11/3/90	11/3/90
LAST STATUS UPDATE	######################################	CLUSED	CLOSED	CLOSED	2/22/90	2/22/90	3/3/90	5/3/90	5/3/90	5/3/90	5/3/90
COGNIZANI Abency		Ē	DEA	FB1		DEA		DEA	DEA	DEA	DEA
) X	11 11 11 12 14 15 16 17 18 18 18 18 18 18 18 18 18 18 18 18 18	70	70	7.0	70	χο	101				
APPROVED OR RECEIVED X		700	851	401	129	159	¥29				
	ii 11	700	85%	90%	159	159	751	45%	451	451	451
REQUESTED Date 1	######################################	49/67/9	6/30/8	\$2,500 8/15/89	8/22/89	\$11,500 8/22/89	8/29/8 9	11/3/89	11/3/89	\$38,000 11/3/89	\$1,850 11/3/89
VALUE	######################################	\$100°000°0018	\$14,000 6/30/89	\$2,500	\$1,750	\$11,500	\$6,290	\$450,000 11/3/B9	\$356,000 11/3/89	\$38,000	\$1,850
CASE # SEIZE # PROPERTY DESCRIPTION	STATITIONISTANDING NO DE LA CONTROL DE L ADIOTES 1974S II S PION AAA. DE LA CONTROL DE LA	HBIZS4JB IZS43 D.S. CUTTENCY, WIUV, UVU	98765 1986 Corvette	CD234567 34567 half carat diamond ring	XY675849 76859 U.S. currency, \$1,750	XY675849 10293 1988 Nissan Pulsar	PD859403 83745 U.S. currency, \$6,290	EF345678 76543 registered arabian stallion	EF345678 76544 cashier check, \$56,000 U.S.	EF345678 76545 1988 Mercedes Benz 300E	EF345678 76546 1976 Chevy half-ton pickup
E12E 4	3476	26671	98765	34567	76859	10293	83745	76543	76544	76545	76546
CASE *	SCEEREPS SAGE	074C71GH	14987654	CD234567	17675849	XY675849	PD859403	EF34567B	EF345678	EF345678	EF345678

Use of such a summary sheet would allow the RICO administrator to easily identify aged forfeitures for follow-up. It would also identify forfeitures on which the full percentage requested by the Police Department was not obtained. Follow-up to determine underlying reasons would protect the City's interests.

APPENDIX D EXAMPLE OF CASH TRANSMITTAL USED BY CITY COURT



CASH TRANSMITTAL CITY CLERK'S OFFICE, POLICE, PURCHASING, SENIOR CENTER, YOUTH SERVICES, PLANET RANCH, PARKS, IMPROVEMENT DISTRICTS

DATE	Z
PROCRAM	NAME

***FOR USE W	ITH RECEI	PT ACCOU	N1.TNC	į	CASHIER USE ONLY
RECEIPT NO. AMOUNT \$ \$	RECE	IPT NO.	\$ AMO	UNT	
\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	de Ad	posits. Iministra	Retaining o	a carbon o fy that rev	n can be used for RICO copy will allow the RICO venues are credited to the
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TOTAL CASH	\$	·		}	
LESS CHANGE					
NET CASE REC		-	\$		
TOTAL DEPOSI			\$	į	
CASH OVER/(S	HORT)		\$	į	
ACCOU	NTING DIS	TRIBUTIO	N .		
ITY CLERK'S OFFICE					
DESCRIPTION	CO # A	CCT. #	CENTER #	AMOUI	NT .
Copies of Materials	1101	44207	01030	\$	
Sales of Code/Ordinances	1101	44206	01030	\$	
Notary Certifications	1101	44206	01030	\$	
				\$	
POLICE DEPARTMENT	CO 4 4		mermon 4	AMOTT	
DESCRIPTION Copies of materials			CENTER #	AMOUR	1
Collections/Other	1101 4	*207	11101		
Jurisdictions	2152 2	7107	12152	Ś	
our route crous	2132 2	7 2 0 7		Š	
		-		•	
SENIOR CENTER					
DESCRIPTION	CO # A		CENTER #	AMOUN	<u>vrr</u>
Senior Center revenue			11101	\$	
Mobility Program	1101 4	B201 .	11101	\$	
Trust Fund				\$	
			····	\$	 1
URCHASING					
DESCRIPTION	CO # AC	CT. # (CENTER #	AMOUN	rr I
Sale of plans/specs			11101	\$	=
· · · · · · · · · · · · · · · · · · ·				\$	
ROGRAM			CENTER #	AHOUN	<u>r</u>
Youth Services	1101 44	4840	1011	\$	
				3	

APPENDIX E UNABRIDGED RESPONSES

3 <u>...</u> em of of order <u>.</u> ٠. ١٦ ١٠

August 5, 1991

Company of the compan

TO: Mike Ashcraft, City Auditor

FROM: \Jim Jenkins, Financial Services General Manager

RE: / Compliance Audit Recommendations

Response to item no. 5: We agree with the recommendation and have established separate center numbers as of August 2, 1991. The centers will be 02301 - Federal, 02302 - State, 02303 - County, and 02304 - City.

Response to item no. 7: We agree with the recommendation and will make a recommendation to the RICO Administrator for a change to the existing Police Cash Transmittal to allow for RICO funds to be deposited. This change should be made by August 31, 1991.

August 6, 1991

TO:

OFFICE OF THE CITY AUDITOR

FROM:

JEREMY L. JAMES, CRIMINAL INVESTIGATIONS BUREAU COMMANDER

SUBJECT:

MANAGEMENT RESPONSES TO AUDIT RECOMMENDATIONS

The draft copy of the Scottsdale Police Department Imprest Accounts and RICO Financial Management Practices has been reviewed. The attached Management Responses To Recommendations lists our response to each recommendation, as well as actions planned or actions taken reference each recommendation.

We appreciate the assistance and recommendations you have provided. As you will see by the recommendation responses attached, most recommendations have either been implemented or are in progress.

JEREMY L. JAMES, CAPTAIN

CRIMINAL/INVESTIGATIONS BUREAU

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MANAGEMENT RESPONSES TO RECOMMENDATIONS

1. The Administrator, in consultation with the State Attorney General, should arrange to have State RICO monies directly transferred to the Department immediately upon court awarded forfeiture. To comply with this arrangement, the Administrator should develop a procedure for providing quarterly reports on the receipt and expenditure of state RICO monies.

A. Management Agrees

Management agrees with this recommendation which will increase interest earnings on state RICO monies.

B. Actions Planned

The State Attorney General's Office will be contacted within 30 days to request and implement this process. A quarterly receipt/expenditure report will be developed and utilized when this procedure is in place.

A. Management Agrees

Management agrees with the recommendation to create a summary sheet of active RICO forfeiture cases.

B. Actions Taken

Information has already been requested on two different computer software programs which will accomplish this task. That information, along with the suggested summary sheet example, will be considered to determine the most efficient method of case tracking. A system will be implemented after all information is received and evaluated.

C. Additional Comments

The tickler mechanism suggested for obtaining status on aging forfeiture cases will be included in this procedure, however, it should be noted that status information, especially on federal forfeiture cases, has been extremely difficult to obtain and depends entirely on the processing agency's internal tracking methods and the criminal justice system. Since these cases are tied to the court system, there is no readily available tracking system.

^{2.} The Administrator should develop a summary sheet of active RICO forfeiture cases for use in verifying that all appropriate monies are received. Separate summary sheets should be developed for each of the RICO classifications (federal, state, county and city) for easy verification. The summary sheets could serve as a tickler mechanism to obtain status updates from responsible agencies on aging forfeiture cases.

3. The Administrator should develop and maintain documentation of all situations where the Department has an interest in a forfeiture case.

A. Management Agrees

Management agrees that improved documentation in this area will be of benefit to the department.

B. Actions Taken

Steps already taken concerning 2.B apply equally to this concern.

4. The Police Chief should establish the Administrator as a central review point for all purchase requests drawn on RICO funds. The review should include verification that the requested purchase is legally allowable. However, to properly segregate duties, the Administrator should not generate purchase requests drawn on RICO funds.

A. Management Agrees

B. Actions Planned

The Administrator will review, approve and initial all purchase orders drawn on RICO funds. The legality of RICO monies use will be confirmed by the assistant city attorney, if this was not previously done during the budget process.

All purchase requests drawn on RICO funds will be approved and signed by either the Deputy Chief of Police or Chief of Police only.

A. Management Agrees

B. Actions Planned

The Administrator will meet with the Accounting Manager to discuss implementation of this recommendation.

^{5.} The Accounting Manager, in consultation with the Administrator, should establish separate cost centers for each RICO classification (federal, state, county and city) that track expenditures.

6. The CIB Commander should develop procedures that adequately safeguard RICO related assets. The procedures should:

6a. segregate responsibility for depositing RICO checks from the responsibility of verifying the checks are properly deposited,

A. Management Agrees

B. Actions Planned

The Administrator will maintain responsibility for depositing RICO checks. The CIB Commander shall be responsible for verifying that all checks are properly deposited.

6b. require that the check transmittal recipient perform a monthly review of RICO account balances to verify that the checks were deposited to the appropriate accounts, and

A. Management Agrees

B. Actions Planned

The CIB Bureau Commander shall be responsible for conducting this monthly review.

6c. require the Administrator to comply with AR 205 and deposit RICO funds as received daily with the Cashier in Financial Services.

A. Management Agrees

B. Actions Taken

All checks received are delivered to the City Cashier on the day they are received when at all possible.

C. Additional Comments

Due to the units' duty schedule, and the fact that members and supervisors work "out of vehicle" much of the time, timely deposit is not always possible.

A. Management Agrees

B. Actions Taken

A formal cash transmittal form, supplied by Accounting, is presently being utilized for all RICO deposits.

^{7.} The Administrator, in consultation with the Accounting Manager, should develop procedures to use a formal cash transmittal document when depositing RICO fund. This should include retaining a copy of the transmittal and verifying that the funds were credited to the appropriate account.

8. The CIB Commander, in consultation with the Custodian, should take steps to develop and update the SED procedures manual to reflect controls that will adequately safeguard assets. The procedural issues addressed should provide for:

MANAGEMENT ACREES: The procedures manual for the Special Investigations Division is in the process of being revised and updated. This update is scheduled to be completed in late August 1991. The following detailed responses address each recommendation.

8a. separation of imprest account check writing from bank reconciliation duties.

A. Management Agrees

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B. Actions Planned

Procedures are being prepared that require the Custodian to be responsible for account check writing while the CIB Bureau Commander will be charged with reviewing and reconciling the account monthly.

8b. review of monthly expense vouchers requiring the advance to be reconciled to the sum of expenses reported plus end-of-month monies that are deposited,

A. Management Agrees

B. Actions Planned

This function has been implemented and will be included in the procedures manual that is currently being revised.

8c. Custodian signature on expense vouchers as evidence of approval,

A. Management Agrees

B. Actions Taken

The Custodian is reviewing and approving all expense vouchers. This procedure will be included in the procedures manual currently being revised.

8d. uniform procedures for completing monthly expense vouchers,

A. <u>Management Agrees</u>

B. <u>Actions Taken</u>

All monthly expense vouchers are now completed uniformly. This procedure will be incorporated in the procedures manual currently being revised.

8e. a reasonable retention period for imprest receipts and other supporting documents.

A. Management Agrees

B. Actions Taken

All receipts and supporting documentation will be maintained for a period of 90 days. This requirement will be included in the revised manual of procedure.

8f. changing the Buy Fund safe combination on a regular basis.

A. Management Agrees

B. Action Planned

The safe combination will be changed annually or when supervisory personnel changes occur within the unit. This requirement will be included in the revised manual of procedure.

8g. periodic, unannounced documented Buy Fund cash counts in the presence of the person responsible for safeguarding the money.

A. Management Agrees

B. Action Planned

A requirement that quarterly cash counts be conducted will be included in the revised procedures manual.

8h. Custodian verification that Unit supervisors comply with AR 205 requiring daily deposits of cash as received, and

A. Management Agrees

B. Actions Taken

The Custodian is requiring that all supervisors comply with this requirement when possible. Due to work hours and out of office work requirements, it is sometimes not possible to comply with this requirement. Inspections will be conducted to ensure that this is being done with as much regularity as possible. This requirement will be included in the revised procedures manual.

8i. a mechanism to regularly update the SED policies and procedures manual.

A. Management Agrees

B. Actions Planned

As policies and procedures occur, and changes are implemented, the manual of procedures will be updated to reflect this change. This will occur quarterly.

9. The Custodian, in consultation with the CIB Commander, should combine the two imprest checking accounts.

A. Management Agrees

There no longer exists a reason to have two separate accounts.

B. Actions Taken

The accounts are scheduled to be combined no later than August 9, 1991.